Shepway Leisure PFI - Addendum to Report C/06/108 dated 24 January 2007

SUMMARY

Consideration of Report C/06/108 was deferred by Cabinet on 24 January 2007 pending the availability of further information from Tribal Consulting to support the draft business case. This information has now been received and has been incorporated into a revised draft business case.

Tribal's further analysis indicates that additional financial contributions will be required to close the predicted funding gap, over and above those suggested by the Stage 1 analysis.

The draft business case was reviewed and approved (subject to minor amendment) by the partners at Steering Group on 30 January 2007.

Recommendations, Legal and Finance Officers' comments have been revised accordingly as follows:

RECOMMENDATIONS

Note: Amendments are shown in **bold** text. Original recommendation 5 is deleted and replaced by Recommendation 3.

1. To receive and note Report No. C/06/108.

2. To accept the conclusions of the Stage 2 affordability report produced by Tribal Consulting.

3. **To agree that the revised draft business case, as approved by Steering Group on 30 January 2007, be submitted to the DCMS on 31 January 2007, on the proviso that the financial implications of the project are considered by Full Council on 22 February 2007.**

4. Following receipt of bids, to accept that it may be necessary to review the facility mix (positively or negatively). If such a review is required, it will take place in full consultation with the project partners.

5. In relation to the Hythe DBOM **element of the project:**
   a) to agree to the base facility mix, with a commitment to include sufficient dry changing facilities to serve the outdoor pitches.
   b) to commit to providing the necessary funding (minus the Hythe TC contribution of £170,000) to support the scheme. This is estimated to be c£7m in the Stage 1 Tribal report.
   c) to underwrite and financially commit to both the capital and revenue affordability gaps identified in the Stage 2 report and the business case, for the lifetime of the lease, to a maximum of 15 years as recommended by Tribal.
   d) to accept that the Council will use its best endeavours to maximise the capital receipt on the existing swimming pool site in order to maximise the site's value and all proceeds from the sale of the site to be devoted to the Hythe project.

LEGAL OFFICER'S COMMENTS (TG)

Any PFI project is complex legally, the more so in a three way partnering arrangement. This may lend itself to additional risks, particularly in terms of timetable and costs overrun. There are factors in this project that are outside the control of the parties, including movements in the property market and increases in construction costs and exposure to such risks becomes greater, if there is timetable slippage.

FINANCE OFFICER'S COMMENTS (CS)

The Council has already committed towards a unitary charge (annual revenue contribution) of £438,000. At its meeting on 20 December, Cabinet agreed to identify sufficient resources to bridge the projected affordability gap, which at that time was identified as being £178,000 additional annual revenue contribution and £1.58m capital resources (Report C/06/99 minute 119).

Following revision of the projections, the revenue sum now required to close the affordability gap is £337,000 (£159,000 in addition to the previously identified £178,000). Given the material variation to these projections, Full Council will be asked to consider the financial implications of the business case, on 22 February. If Council resolves to find the additional revenue contribution required to close the funding gap, this will be included within the Council's Medium Term Financial Strategy.

There are still elements of the scheme which remain uncertain. At the present time the external leisure facilities have been taken out of the PFI element of the Folkestone scheme and will be managed through a separate management contract. The capital costs of refurbishing these facilities and the ongoing revenue commitment of running and maintaining them, have yet to be accurately quantified. In addition, there remains uncertainty regarding the value of the land holdings to be sold at Folkestone and Hythe, and a possibility that costs could rise again during procurement, once bidders have the opportunity to review usage levels and the facilities mix.

The Council's Medium Term Financial Strategy has already identified a shortfall of funding in 2009/10 of £100,000, within this figure an efficiency target of £100,000 has already been incorporated. In addition to this financial pressure, the Cabinet must consider other known cost pressures such as the re-tendering of the waste contract during 2008, the financial implications of the revaluation of superannuation fund, potential equal pay claims and the uncertainty of future settlements and job evaluation costs. These financial pressures, together with the ongoing revenue commitment to the Leisure PFI/DBOM scheme will need to be addressed over the coming 2 years and a robust savings plan identifying where costs are to be driven out of the authority needs to be drawn up, and achieved before the unitary charge becomes payable in 2009/10.

At the present time, the scheme is not financially viable unless the Council is able to demonstrate significant reductions elsewhere within its budget. At the steering group meeting on 30 January, the Council's partners expressed their concern at the level of financial commitment the Council was now having to make, in order to make this scheme financially viable. The Council will need to make a capital contribution of £7.33m (£5.75m current commitment, plus an additional £1.58m) and an ongoing revenue commitment of £775,000 per annum (£438,000 initial commitment, plus an additional £337,000) to make this scheme financially viable.